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GAIN Report

Global Agricultural Information Network

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Ecuador

FOOD PROCESSING SECTOR

REPORT

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Report Highlights:

The Ecuadorian market for food processing ingredients offers significant opportunities for U.S. exporters. With rich agricultural resources and potential, the sector has a few larger industrial producers and many traditional processors. Consumption patterns are similar to elsewhere in Latin America with trends towards consumer ready food products and more nutritional and health awareness. Price and quality remain top considerations.

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Quito

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Author Defined:

Section I. Market Summary

Since the return to democracy in 1979, Ecuador has experienced a high degree of political instability. Eleven presidents have announced and sometimes implemented a wide range of economic policies aimed at improving living conditions and advancing economic progress. Some policies have worked and some have not. All economic sectors have experienced some degree of crisis. Natural disasters, from flooding to volcanoes, are frequent occurrences.

From 2000-2008, Gross Domestic Product (GDP) averaged an annual growth of 4.8%, reflecting the dynamism of private consumption (3.7% growth on average), investment (with average growth of 9.8% for the period) and exports (which have expanded on average each year 18% since 2000).

Inflationary pressures have been reduced since the dollarization of the economy in 2000 which eliminated currency risk. The annual inflation average declined consistently after 2001 until it registered its lowest level in the year 2005 (2.1%), while in 2007 there was a slight increase (3.3%) and in 2008 the inflation reached its highest level since the implementation of the dollarization, getting near the two digit variation.

In the most recent years, production costs have stabilized, purchasing power of households has improved and overall confidence in the financial system has increased. There is greater access to credit boosting consumption and investment. In addition, strong external demand has impacted positively on the growth of exports. This dynamism in economic activity was reflected in the growth of imports, which in turn strengthened the productive sector in the form of greater inputs of fuels, raw materials and capital goods.

GROSS DOMESTIC PRODUCT (GDP) GROWTH			
YEAR	GDP	NON OIL GDP	MANUFACTURING SECTOR GDP
2001	5.34%	6.51%	4.89%
2002	4.25%	6.00%	2.53%
2003	3.58%	2.99%	4.59%
2004	8.00%	3.73%	3.23%
2005	6.00%	7.46%	9.24%
2006	3.90%	4.71%	8.54%
2007	2.65%	4.87%	4.63%
2008*	4.25%	4.08%	4.54%
AVERAGE GROW	4.74%	5.04%	5.27%

Source BCE

According to the classification by economic activity during the year 2008 the sector that contributed the most to the growth in the non-oil activity in Gross Domestic Product (GDP) was the commerce sector, followed by manufacturing sector despite that this sector has shown a slowdown in growth from 8.54% in 2006 to 4.63% in 2007 and to 4.54% in 2008. Within the manufacturing sector, the production of foodstuffs and beverages in 2007 represented 8.96.7% of net value added to the GDP, being the subsector with the largest share in the total manufacturing value added (55.9%). [1]

One of the sectors that has experienced swings in growth is the Agricultural, Livestock, Hunting and Forestry sector, which went from 5.09% in 2005 to just 2.14% in 2006, dropping to 4.90% in 2007 and ending 2008 with 3.63%. The drop in 2008 is mainly explained by climatic phenomena which reduced agricultural supply in year 2008 as some crops were affected by drought and frost in the highland region and by floods in the coast region at the beginning of the year.

According to the classification by economic activity by the Central Bank of Ecuador, the food and beverage sector corresponds to the area of agriculture, livestock, hunting, forestry and manufacture (which excludes oil refining). [2]

The main subsectors are:

- Meat, meat products and sub products
- Processed shrimp
- Fish and other processed aquatic products
- Preserved aquatic species
- Crude and refined oils
- Developed lacteal products
- Milling products
- Bakery products, noodles and pasta
- Sugar and sugar cane
- Developed cocoa products
- Chocolates and confectionery products
- Foodstuffs various

Participation of the sector in the Gross Domestic Product

According to information of the Central Bank of Ecuador, during the period 2000-2008, the food and beverage sector has had the following participation in the GPD:

Gross Domestic Product (thousand of dollars)

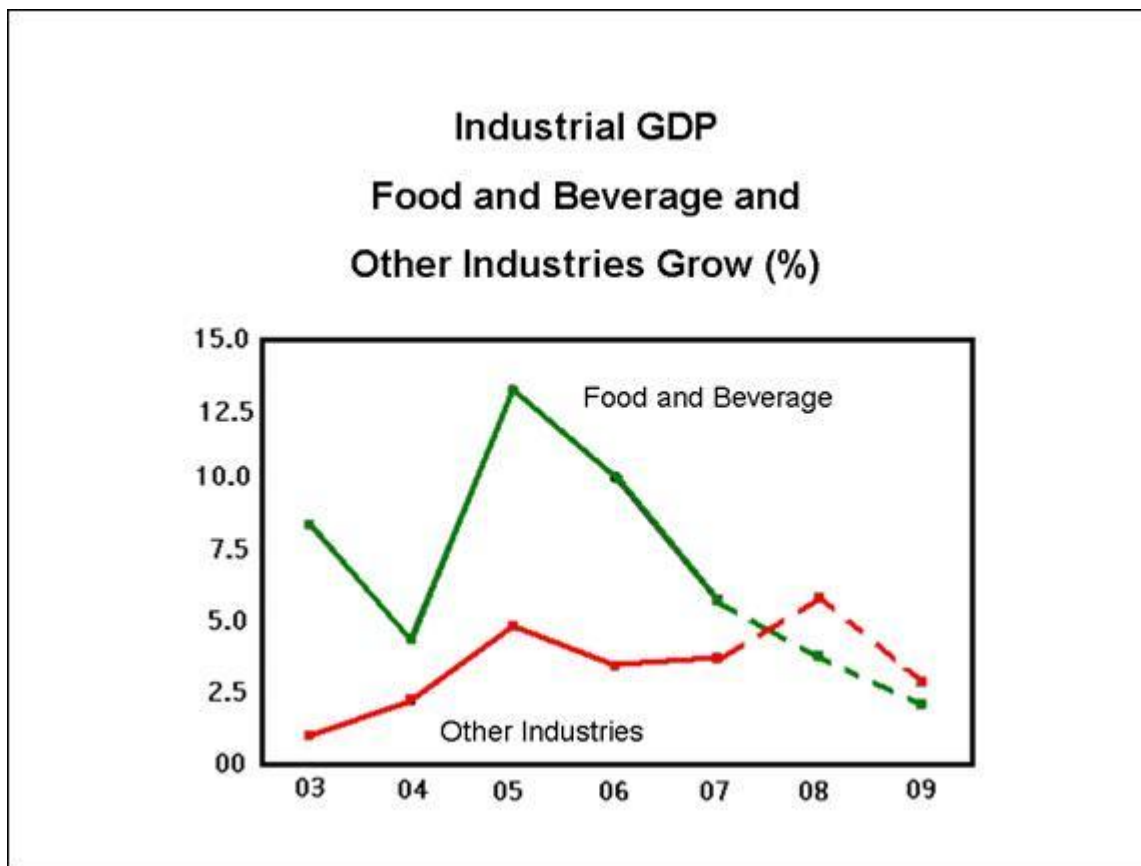
Economic Activity	2001	2002	2003	2004	2005	2006	2007*	2008*	2009 (Projected)
Meat and developed fish	611105	631253	722318	754176	904,068	1,034,264	1,090,123	1,134,818	1,163,188
Cereals and bakery	82261	81701	82764	86700	89,609	92,169	90,388	91,292	91,383
Sugar elaboration	92621	94389	96475	99333	106,023	109,268	111,513	115,416	115,416
Foodstuffs various	259454	264483	276318	285850	296,934	308,080	334,282	346,316	354,974
Beverages elaboration	88294	86105	77270	82750	86,558	90,016	102,870	106,882	108,271
Total Agro-Industrial GDP	1,133,735	1,157,931	1,255,145	1,308,809	1,483,192	1,633,797	1,729,176	1,794,724	1,833,233
Percentage Agro-Industrial GDP Grow		2.13%	8.40%	4.28%	13.32%	10.15%	5.84%	3.79%	2.15%

The percentage share of the sector in GDP, according to the same source, is reflected in the table below:

Economic Activity	2001	2002	2003	2004	2005	2006	2007*	2008**	2009 (Projected)
Meat and developed fish	3.6	3.6	4	3.9	4.4	4.8	4.9	4.9	4.8
Cereals and bakery	0.5	0.5	0.5	0.4	0.4	0.4	0.4	0.4	0.4
Sugar elaboration	0.6	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Foodstuffs various	1.5	1.5	1.5	1.5	1.4	1.4	1.5	1.5	1.5
Beverages elaboration	0.5	0.5	0.4	0.4	0.4	0.4	0.5	0.5	0.5

* The figures and percentages of years 2007 and 2008 are provisional.

According to the Ecuadorian Central Bank statistics on the added value by the sector, the food and beverage sector contributed in 2008 with an aggregate value of \$1,794,724 thousand dollars, while the Agricultural, Livestock, Hunting and Forestry contributed with \$2,427,721 thousand dollars.



Source: Análisis Semanal de Economía y Política del Ecuador

The grow of the agro-industrial sector has been decelerated since 2005 reaching only 3.8% in 2008 and showing a tendency of deceleration under the projections for 2009 to 2.1% as shown in the graph above. The meat and developed fish subsectors are estimated to have the best performance relatively compared with the other agro-industrial subsectors. The Sugar subsector had no growth but even this estimate is optimistic since one of the largest sugar mills is now in the hands of the government and it is not operating at full capacity.

While the sector is national in coverage in terms of production of inputs and product markets, it should be made clear that primary products are generated in rural areas, while enterprises that produce food and beverages which have undergone a process of transformation, are mainly concentrated in the principal cities of the country. [3]

Register Food Manufacture Companies Sales Statistics (Thousands of dollars)

Economic Activity	Number of Register Companies 2006	Number of Register Companies 2007	Net Sales 2006	Net Sales 2007
Meat, meat products and sub products	47	39	491,866,831	573,271,991
Fish and other processed aquatic products	82	82	1,177,768,323	1,182,653,039
Fruits and vegetables products	41	39	165,681,286	177,854,412
Animal and vegetable oils	37	39	586,047,380	848,372,001
Lacteal products	177	171	408,761,461	423,605,087
Milling products	48	51	210,653,387	207,816,860
Starch and starch products.	7	4	3,372,580	2,072,082
Bakery products	65	61	197,363,925	221,942,213
Sugar	10	8	283,137,798	294,594,013
Chocolate and confectionary products	24	24	136,684,279	157,524,171
Macaroni, noodle and pasta	21	20	57,988,383	53,327,929
Foodstuffs various	58	59	177,222,254	221,195,657
Alcoholic beverages; ethyl alcohol from fermented products	33	39	62,518,266	73,364,955
Wines	11	11	10,304,889	9,768,369
Malta beverages	3	2	287,315,125	331,019,512
Non-alcoholic beverages. Bottled mineral water	83	84	268,031,277	353,551,988

Information-December 2008

Source: Superintendencia de Compañías

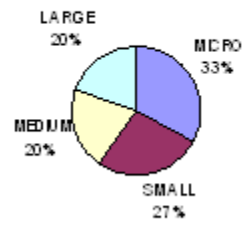
NUMBER OF FOOD AND BEVERAGE MANUFACTURE COMPANIES IN 2007 BY SIZE

	MICRO	SMALL	MEDIUM	LARGE
Food and beverages	243	195	150	145
Meat, meat products and sub products	7	12	13	7
Fish and other processed aquatic products	23	8	18	33
Fruits and vegetables products	15	8	7	9
Animal and vegetable oils	3	2	12	22
Lacteal products	88	44	24	15
Milling products	14	10	16	11
Starch and starch products.	1	2	1	0
Bakery products	17	27	10	7
Sugar	0	1	0	7
Chocolate and confectionary products	4	10	4	6
Macaroni, noodle and pasta	4	7	6	3
Foodstuffs various	17	21	12	9
Alcoholic beverages; ethyl alcohol from fermented products	17	15	10	10
Non-alcoholic beverages. Bottled mineral water	33	28	17	6

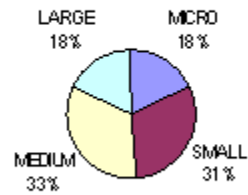
DISTRIBUTION OF FOOD AND BEVERAGE MANUFACTURE COMPANIES IN 2007

Distribution of Companies by number

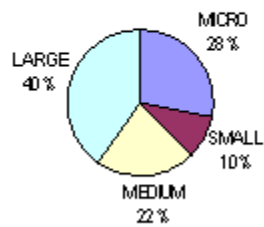
Food And Beverages



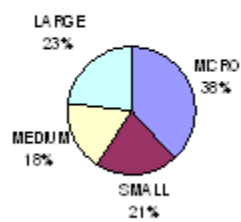
Meat, Meat Products



Fish And Processed Aquatic Products

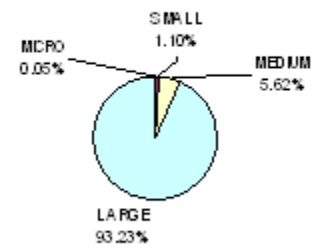


Fruits And Vegetables Products

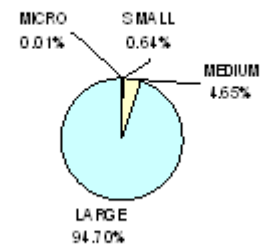


Distribution of Companies by sales

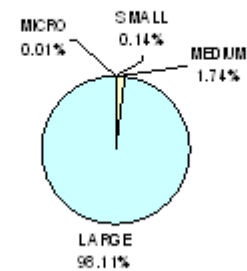
Food And Beverages



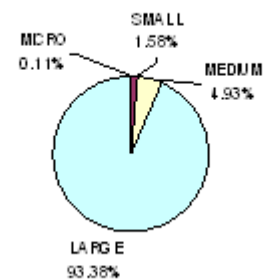
Meat, Meat Products



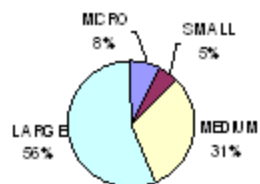
Fish And Processed Aquatic Products



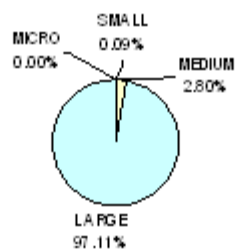
Fruits And Vegetables Products



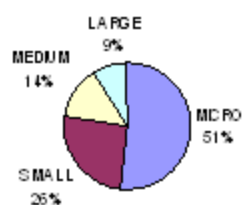
Animal And Vetebales Oils



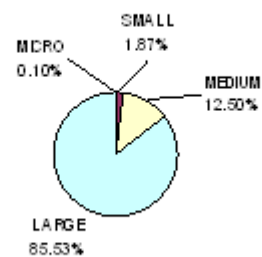
Animal And Vegetables Oils



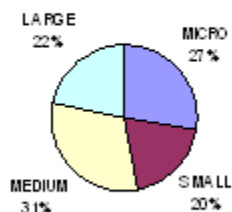
Lacteal Products



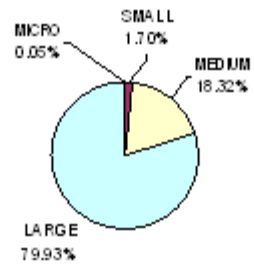
Lacteal Products



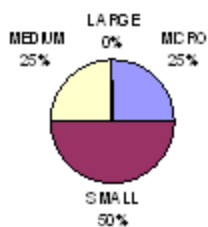
Milling Products



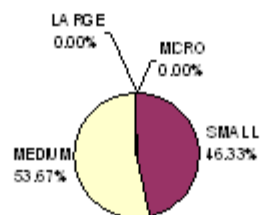
Milling Products



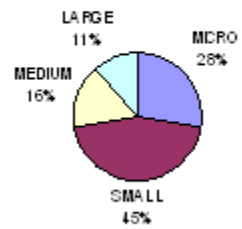
Starch and Starch Products



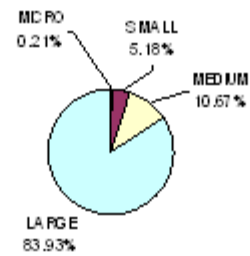
Starch And Starch Products



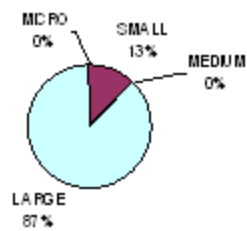
Bakery Products



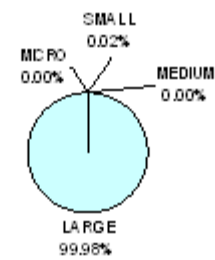
Bakery Products



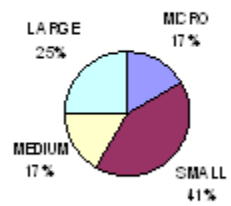
Sugar



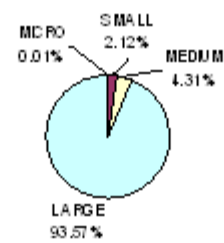
Sugar



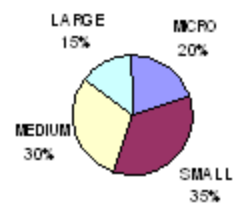
Chocolate And Confectionery Products



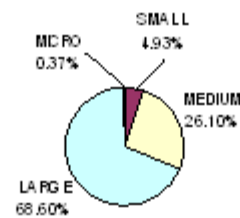
Chocolate And Confectionery Products

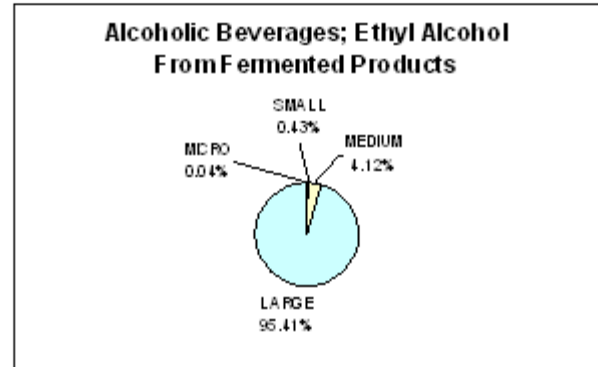
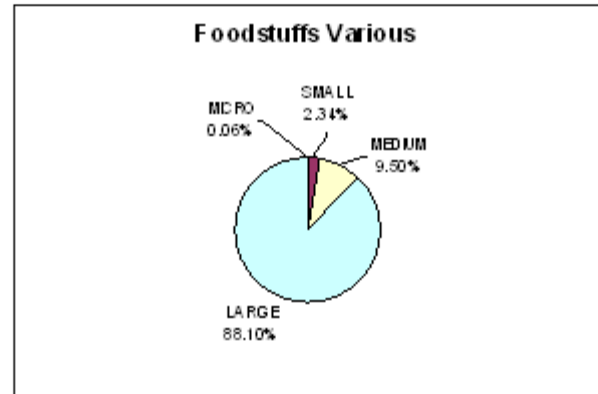
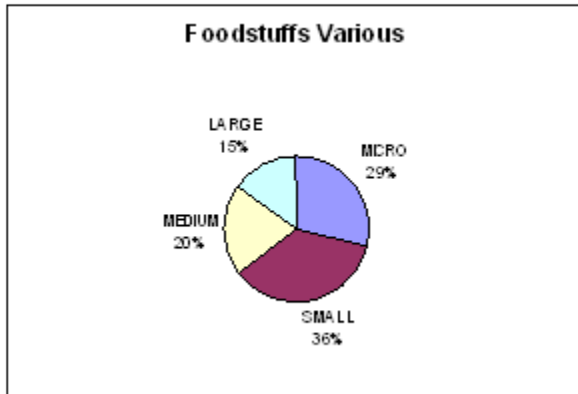


Macaroni, Noodle And Pasta



Macaroni, Noodle And Pasta





Source: Superintendencia de Compañías

Advantages and Challenges Facing U.S. Products in Ecuador

Advantages	Challenges
<ul style="list-style-type: none"> The country's economy in 2009 will grow by 3.2% according to estimates from the Central Bank, and agro-industry will contribute with a 0.17% to that expansion. 	<ul style="list-style-type: none"> Without a free trade agreement, U.S. exports face considerable tariff restrictions for access to the Ecuadorian market.

<ul style="list-style-type: none"> • Although restrictions to imports have been placed, these mainly affect final processed products. This represents an opportunity for US exporters of raw material and ingredients for the food processing sector since it is expected an increase of local production. • The main trading partner of Ecuador is United States. • Products that come from United States are known from their quality. <ul style="list-style-type: none"> • The demand for low-calorie products, energy, etc, has increased in recent years, so this industry must produce and import more. 	<ul style="list-style-type: none"> • The processes and procedures for import in Ecuador can be long and complicated. • Exporters of foodstuffs from the United States are not as aggressive in tracking sales as those in Chile or other supplier countries. • Nearly 65% of the population belongs to the segment of low-income and may not have access to imported products. • American companies should focus the issue of economies of scale, since in some cases the marketing conditions are too complicated. • Prices of US products in some cases may be higher than those of local products or nearby countries.
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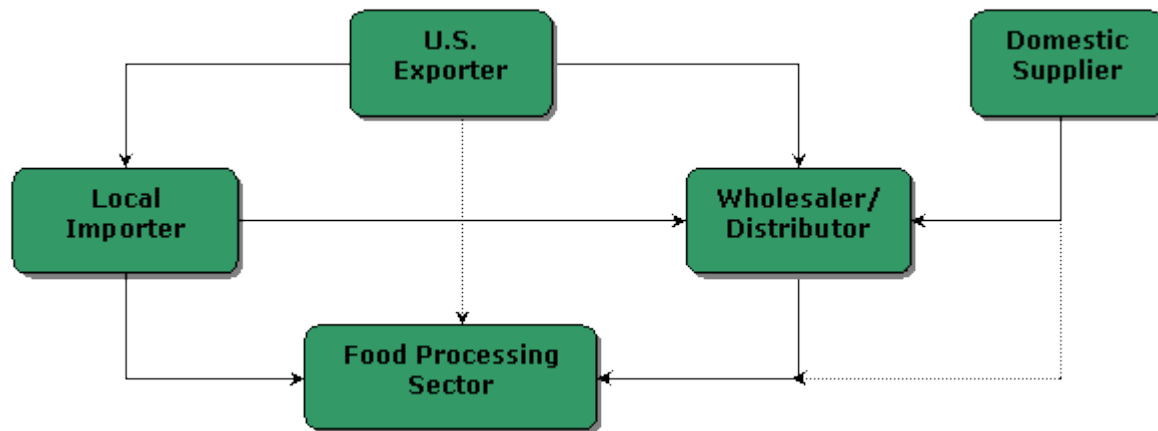
Section II. Road Map for Market Entry

A. Entry Strategy

- The producers and exporters of food ingredients from the United States who seek to enter the Ecuadorian market may contact local food processors directly or work with representatives, agents or distributors, to define the application and product type that requires final users. Usually large companies import directly from foreign suppliers; however small and medium-sized enterprises do not have the ability to purchase large volumes and therefore negotiate with a representative or distributor. In the case of large volumes, the establishment of a local subsidiary to guarantee services and quality to clients may be justified.
- United States foodstuffs are known for their high quality and excellent values; however quality standards have risen in products around the world thanks to automation and technology. Therefore to compete in Ecuadorian market where the purchasing power of consumers is low, producers must also offer quality, competitive pricing or special services such as improved care, warranties, adapting products and packaging to local standards.

- United States exporters who wish to enter in the food ingredient market of Ecuador must be very aggressive and pro-active to promote good and solid relationships with their clients through personal visits or referenced by distributors or customers. This is the best way to maintain and increase sales. Additionally monitoring, support and constant communication makes a difference compared to competitors in nearby countries who generally offer better prices because of freight and products without tariff.
- The correct payment method is important. Suppliers should avoid direct credit until the clients demonstrate creditworthiness. Also cash payments can reduce costs of imports. If letters of credit are used, it is recommended that they be confirmed and irrevocable to secure the payment.
- Exporting companies from the United States must understand the importance of knowing the market, key contacts and become familiar with local laws and business practices in Ecuador, for which the Foreign Agricultural Service (FAS) Office in U.S. Embassy/Quito keeps lists of potential importers and can provide this information to suppliers that wish to seek business opportunities in Ecuador.
- Since 2005, the government has been providing credit for productive and commercial activities, especially to the agricultural sector, micro entrepreneurs and merchants. One of the most common programs provides up to an amount of \$ 5,000 with a rate of interest of 8% and a maximum term of three years. In addition, since April 2004, with funds from the National Finance Corporation, credits have been delivered to small and medium enterprises (SMEs) to the amount of USD 30,000 at the annual rate of 9%. This variable represents an opportunity to enter or expand agribusiness, since the credit can be used to purchase raw materials and inputs.

B. Market Structure



To the extent that the distribution channels for a product are well established, new entrants must focus on the retail sector and seek to convince retailers to accept their products through lower prices and increased profit margins, sharing costs of promotion, engaging in joint promotional efforts at the point of sale, among others. When it is not possible to penetrate the existing distribution channels, the new company acquires its own cost of distribution structure and can still create new marketing systems and seize market share.

Distribution channels can be different between local and imported products and are changing all the time, the purchase of raw materials and inputs for food processing represents a significant portion of the cost of the final price of products. Local inputs can be purchased directly from producers.

In general, food processing companies make purchases directly and not through brokers, so they reach economies of scale and maximize profits but they are then responsible for the logistics. In some cases, processors have an import broker, which represents one or more foreign suppliers.

Companies with low sales volume who import directly face high costs as the conditions and procedures for importing can be difficult. Therefore it is better to use a local wholesale to make the import process and all the required procedures.

The food processing companies usually have their own distribution chain which contains wholesalers, self-service, traditional retailers and to a lesser extent the institutional (HRI catering). There is a small portion of companies that have outsourced the distribution to certain provinces.

C. Company Profiles

The food and beverages processing companies have increased their production levels in response to increased demand, coming from both population and income growth. Also, conditions of the global market require permanent innovation, efficiency, competitiveness and adoption of new technologies, all aimed at achieving greater efficiency and competitiveness which would enable strict adherence to quality parameters.

Profiles of Major Food Processing Companies (Thousands of dollars)

Economic Activity	Number of Register Companies 2006	Number of Register Companies 2007	Net Sales 2006	Net Sales 2007	Market Percentage	Growth
Meat, meat products and sub products	47	39	491,866,831	573,271,991	10.85%	16.55%
Fish and other processed aquatic products	82	82	1,177,768,323	1,182,653,039	22.38%	0.41%
Fruits and vegetables products	41	39	165,681,286	177,854,412	3.37%	7.35%
Animal and vegetable oils	37	39	586,047,380	848,372,001	16.06%	44.76%
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Milling products	48	51	210,653,387	207,816,860	3.93%	-1.35%
Starch and starch products.	7	4	3,372,580	2,072,082	0.04%	-38.56%
Bakery products	65	61	197,363,925	221,942,213	4.20%	12.45%
Sugar	10	8	283,137,798	294,594,013	5.58%	4.05%
Chocolate and confectionary products	24	24	136,684,279	157,524,171	2.98%	15.25%
Macaroni, noodle and pasta	21	20	57,988,383	53,327,929	1.01%	-8.04%
Foodstuffs various	58	59	177,222,254	221,195,657	4.19%	24.81%
Alcoholic beverages; ethyl alcohol from fermented products	33	39	62,518,266	73,364,955	1.39%	17.35%
Wines	11	11	10,304,889	9,768,369	0.18%	-5.21%
Malta beverages	3	2	287,315,125	331,019,512	6.26%	15.21%
Non-alcoholic beverages. Bottled mineral water	83	84	268,031,277	353,551,988	6.69%	31.91%
TOTAL	747	733	4,524,717,444	5,131,934,279	97%	141%

Information-December 2008

Source: Superintendencia de Compañías

The following table shows some of the major food processors in Ecuador. It includes information on the types of products processed, the main imports performing, sales of the year 2007, the final distribution channel, places where locates its production and the channels used to purchase imported ingredients.

Profiles of Major Beverage Companies

Company	Common Imported Products	Sales (\$ million)	End-Use Channels	Production Location	Procurement Channels
SUPERMERCADOS LA FAVORITA	Specialized food ingredients and	871.73	Retail and HRI	Pichincha (41) Guayas (13)	Direct

(meats, bakery)	food commodities			Azuay (4) Loja (1) Tungurahua (3) Imbabura (3) Manabí (6) Santa Elena (2) Esmeraldas (1) Santo Domingo (1) Cotopaxi (2) Los Ríos (2) Chimborazo (2) Cañar (1) El Oro (2)	
PRONACA (Meats and poultry, prepared fruit and vegetables, prepared animal food, dry goods, prepared meals)	Grains, live animals, soybean meal, condiments	489.06	Retail and HRI	Ecuador (3) Brazil (1) Colombia (1)	Direct
NESTLE ECUADOR (Dairy products, baked goods, confectionary, snack food, dry goods, prepared meals)	Specialized food ingredients	322.03	Retail and HRI	Ecuador (1) Chile (6) Colombia (3) Venezuela (2)	Direct
COMPANIA DE CERVEZAS NACIONALES C.A. (Beer)	Starch, Barley, glucose syrup	317.80	Retail and HRI	Ecuador (2)	Importers; Direct
LA FABRIL (Oilseed products)	Bean raw oil, sunflower oil, fragrances, Flavors and antioxidants	267.02	Retail and HRI	Ecuador (1)	Wholesaler; Direct
ECUADOR BOTTLING COMPANY (Beverages, refresh)	Sugar	213.05	Retail and HRI	Ecuador (2)	Direct
NEGOCIOS INDUSTRIALES REAL NIRSA (Fish, prepared meals, dry goods)	Specialized food ingredients	170.84	Retail	Ecuador (1)	Direct, Broker
DANEC (Oilseed products)	Animal fat, vegetable oil, corn oil, catalyst	161.58	Retail	Ecuador (1)	Direct
INDUSTRIAS ALES (Oilseed products)	Specialized food ingredients	153.83	Retail	Ecuador (1)	Wholesaler; Direct
UNILEVER ANDINA ECUADOR (Oilseed products, ice creams, hygiene)	Animal fat, vegetable oil, corn oil, Specialized food ingredients	147.84	Retail and HRI	Ecuador (1)	Direct
SOCIEDAD AGRICOLA E INDUSTRIAL SAN CARLOS S.A. (Sugar)	Specialized food ingredients	84.52	Retail	Ecuador (1)	Wholesaler; Direct
COMPANIA AZUCARERA VALDEZ S.A. (Sugar)	Specialized food ingredients	80.92	Retail	Ecuador (1)	Wholesaler; Direct
ECUDOS (Sugar)	Specialized food ingredients	79.57	Retail	Ecuador (1)	Direct

ECUAJUGOS (non-alcoholic beverages)	Specialized food ingredients	75.87	Retail and HRI	Ecuador (1)	Direct
INDUSTRIAS LACTEAS TONI S.A. (dairy products)	Specialized food ingredients	72.89	Retail	Ecuador (1)	Wholesaler; Direct
INDUSTRIAL SURINDU S.A. (Baked goods, confectionary)	Molasses	59.83	Retail and HRI	Ecuador (1)	Direct
INDUSTRIAL MOLINERA (Dry goods: powdered wheat, oats)	Wheat, Oats	58.20	Retail	Ecuador (2)	Direct
CONFITECA (confectionary products)	(Sugar, gums, essence)	58.16	Retail	Ecuador (1) Colombia (1), Peru (1)	Direct, broker
KRAFT FOODS ECUADOR S.A. (beverages, cheese and dairy, convenient meals, snacks and cereals, grocery)	Specialized food ingredients and food commodities	50.45	Retail and HRI	Ecuador(1), Peru (1) Colombia (1) Venezuela (2)	Direct
PRODUCTOS NUTRITIVOS SUPAN TIOSA (bread baking)	Specialized food ingredients and flavors	37.37	Retail and HRI	Ecuador (1)	Direct
CERVECERIA ANDINA SA (Beer)	Starch, Barley, glucose syrup	26.08	Retail and HRI	Ecuador (1)	Importers; Direct

Source: Direct Investigation

Food processors are one of the most successful sectors of the economy, reflecting stability and consistent demand, due to the variety of products, such as easy preparation, low in calories, special for babies, and so on.

D. Sector Trends

The Food and Beverage sector has achieved a high level of industrialization among the large processor. However, small processors continue to produce with traditional methods and the lack of technological innovation is their biggest obstacle. Consumption of processed items has become established as part of the food culture of the country. One of the main advantages of Ecuador is the diversity of agricultural resources, which allow the creation of value-added products for local consumption and for export.

The highest item in the household consumption is food and non-alcoholic beverages, reaching during 2005 \$ 62.2 million per month, of which 54% of people consume low in calories and natural products, marking a new pattern in the lifestyle of Ecuadorians. [4]

SUPERMARKETS RETAIL CHAINS

In Ecuador, the big supermarket chains and hypermarkets, such as Supermercados la Favorita

(Supermaxi, Megamaxi, Akí), Importadora el Rosado (Hipermarket), Tiendas Industriales Asociadas (TIA) and Supermercado Santa Isabel/Santa María, have high bargaining power as buyers. In the period between 1999 and 2005, these companies doubled their number of stores and tripled their nationwide sales. The large volume of purchases they made and the high market share they have, allows them to exert strong influence in the market to the disadvantage of small importers and distributors.

Supermarket La Favorita: With 55 years in the domestic market and 84 stores is the leading marketer in the "retail" area and has underpinned its position in the slogan "the pleasure of buying". Supermarket La Favorita has achieved according to the Superintendent Companies during 2007 a level of sales of \$ 871.73 million and expects to have closed 2008 with around \$1 billion in sales; it also participates in the industrial area with Profasa (meat) Agropesa (slaughter), Maxipan (bakery), among others. Its main suppliers are Chile and the United States and the major products sale in its stores are the ones of the basic food basket, fruits and grains. This company is in constant search for foreign suppliers with experience in the market area with Ecuador.

El Rosado: This firm was founded in Guayaquil by Alfredo Czarninski, who opened a store called "Importadora El Rosado" the first self-service super market in Ecuador that nowadays is called "Mi Comisariato" and it is the second largest supermarket chain in the country. Mi Comisariato is the strongest retailer in the coastal area.

MEAT PRODUCTS AND SUBPRODUCTS

According to the national statistics, Ecuador has a population of approximately 5.5 million cattle. However, its meat production is based on the exploitation not only of cattle, but also on pigs and to a lesser extent sheeps; constituting domestic supply of red meat for direct consumption and industrial production which presents an insignificant growth in relation to the demand of livestock products for the domestic market and border trade.

Even though the pork industry is nation wide, it is poorly developed due to: high production costs, competition for raw materials with the poultry industry, lack of breeding centers, little technological innovation, and lack of training to small producers. This industry is also affected by the introduction of similar products from neighboring countries, especially Peru, which has tariff preferences to imports of raw materials for animal feed, situation that makes less competitive the Ecuadorian products.

This sector is expected to grow by 2.5% during 2009 according to data from the Central Bank of Ecuador.

Pronaca: Leader in the market due to product innovation and presentation; the company has

a growth between 15 and 20% annually. In addition to the packaged meat, eggs and preserves, it is also a leader in the sale of packaged rice. Pronaca launched to the market a new value-added meat product ready for consumption under the brand "Mr. Cook". According to the Superintendence of Companies, Pronaca has more than 45% of the market share of chicken in Ecuador. Pronaca has entered the global market with palm oils and fish products which have added value and are at the stage of internationalization through its subsidiaries in Colombia and Brazil.

Agropesa: With the most modern slaughterhouse in Ecuador, it provides its production to its supermarket chain "La Favorita". In 2006 Agropesa production reached 14,311 tons of pork and beef, increasing in 2007 15,333 tons. The annual sales increased 18.55% in 2007.

SUGAR INDUSTRY

The importance of the sugar agro-industry in the country is shown in its contribution to GDP, reaching 1.4%. There are six sugar mills: San Carlos, Troncal, Valdez, Maria Isabel, IANCEM and Monterrey but the first three companies represent 90% of national production.

Sugar cane is used to obtaining raw sugar, white sugar, refined sugar, alcohol, and molasses. The production volumes have increased annually. The planted area increased from 60,180 hectares to 65,000 hectares between years 1996-2007. Sugar production reached 492,671 MT in year 2007; this growth is mainly due to large investments made by sugar mills and the sugar cane industry.

San Carlos: Founded in 1945 by Carlos Sarmiento Lora and María Cristina Palau, San Carlos produced the first sugar sack (50 kilograms), and by the end of the year the production reached 26,128 sacks. Currently, San Carlos produces white sugar, white special sugar, refined sugar and raw sugar. During the 2007 harvest, San Carlos reached the national production record with 171,480 tons of sugar produced.

Valdez: Valdez Sugar Mill was founded in 1884 by Rafael Valdez, in 1922 Mr. Valdez constituted "Compañía Azucarera Valdez S.A", few months later "Noboa" Corporation bought the firm and since 1996 The Consortium Nobis has been running the company.

Nowadays the sugar mill can produce 8500 tons of sugar cane per day; from each ton 232 pounds of pure sugar can be produced. Valdez in 2007 produced 159,032 tons of sugar.

CONFECTIONERY PRODUCTS

This sector has sales of about \$135.5 million a year. In 2007, exports reached \$47.81 million and local confectionery

sales increased significantly to \$87.7 million.

Companies of the sector demand innovation and dynamism increase, their main problem is sugar price and that is why businessmen want to get the best profit margins in the purchase of raw materials.

Nestlé: It is the main food company in the world, the number one trader of powdered dry milk, condensed milk products, chocolate, confectionery and mineral water, and number three coffee traders. With the acquisition of Gerber Products of Novartis, Nestle is the world's largest manufacturer of nutritional products for small children, and will provide 79% of products for infants in the United States. In Ecuador, leads sales of confectionery segment, its main competition is Confiteca, La Universal, Cadbury Adams, Ferrero, Arcor and Carozzi.

Confiteca: It is the leader company in the sale of sweets, chewing gum and soothers with in Ecuador, 30% of its production is exported to Colombia, 25% to Peru and 17% to 35 other countries. Confiteca has entered in the production of gourmet chocolate and expects a growth of 25%. Confiteca executives believe that Ecuador's image at the international level is a major limiting factor in negotiations.

ALCOHOLIC BEVERAGES

The demand in the country for this type of beverages has increased and sales and distribution have been continuous. The products in most demand are beer, brandy, rum, vodka, tequila, whisky and champagne. According to the Central Bank of Ecuador, imports of liquor into Ecuador in the last three years reached 89,824.38 tons (2006 – 2008). However, imports on this segment will likely be affected by the recent implementation of a new 35% tariff on top of the existing ones that will last for a year.

In the category of national alcoholic beverages, brand Zhumir has 40.3%; Cristal, Caña Manabita, Quindiana and Frontera will compete for the remaining 22.7% of the market, and Norteño, Tropicó, Patito Seco, Ron Cartagena and Castillo are brands involved with 37. [5]

The annual average of consumption of beer per person in Ecuador is 28 liters, very low figure when compared to France (41 liters per capita), United States (64), Switzerland (77), Denmark and England (90). But this is a great space that can be exploited and generate profits.

In Ecuador, in the market for beer is dominated by the two large multinationals National Beer Company and AmBev Ecuador, controlled respectively by the multinational group SAB Miller and the AmBev.

National Beer Company: with presence and dominance of the market since 1922, has a 90% of the market share, generates 950 jobs in plants that operate in Quito and Guayaquil, as well as 2900 working places for the distribution of their products (Pilsener, Pilsener Light Club, Dorada and Chop). From year 2006, SAB Miller bought group Bavaria, capturing 94% of the incomes of the Ecuadorian beer market. According to the Superintendence of Companies, in year 2007 their sales were \$317.80 million.

Beverage Company of the Ameritas AmBev: began its activities in Ecuador since year 2004, with presence in Brazil, Uruguay, Paraguay, Argentina, the Dominican Republic, Venezuela, Peru and Guatemala. According to official figures in year 2006 captured 6% of beer consumers. It is estimated that the presence of Ambev generates 350 jobs at its plant. Moreover, its executives hope to seize 30% of the market with one of their star products: Brahma, to that end, they hope to produce at its maximum capacity (900 thousand annually hectoliters).

Destilería Zhumir: In 1982 this family firm changed its name into "Destiliría Zhumir". Since that time Zhumir has been working with high technology standards. Nowadays it has 6 production branches in the alcohol category, and in non-alcoholic products Destilería Zhumir also produces Natural Water, Flavored Water and Mineral Water.

NON ALCOHOLIC BEVERAGES

The non alcoholic beverages market generates about \$360 million per year. The key for this sector is product diversification. Foreign firms seeking market niches in Ecuador have an opportunity to exploit.

According to business reports, this sector has positive prospects for the future due to the strong demand particularly during holidays. Additionally, there have been good incentives to demand such as a good pricing policies, advertising campaigns and new products. [6]

The market for soft drinks, which generates around \$10 million a month in Ecuador is disputed mainly by four bottling companies: Ecuador Bottling Company (EBC), a distributor of Coca-Cola, International and Ecuatoriana de Refrescos with their Pepsi product, National Bottling Embona which is a producer and marketer of brands such as Tropical, Apple and Crush, and Ajecuator with brands Big Cola and KR.

Although the consumer retains its preference for black soft drinks beverages, the competition intensified in 2001 with the arrival of the Peruvian Ajegroup (Ajecuator), which shook the market with low-budget brands (b-brands) such as Big Cola and Kola Real.

Ajegroup: Ajegroup is present in 12 countries and started in Ecuador in 2001. The Peruvian bottler succeeded in attracting 14% of market, reaching sales of \$31 million representing a

growth of 11% over the previous year. This forced Coca Cola, represented in the country by Ecuador Bottling Company (EBC), and Pepsi represented by International and Ecuatoriana de Refrescos, to launch products to market that can compete with the b-brands of Ajecuator.

Coca Cola: Dominates the Ecuadorian market with 60% market share with 3 plants (Quito, Santo Domingo and Guayaquil). Its two liter Inca Kola has 47 percent market share. Its star products are Coca Cola, Fanta and Sprite. Its sales reached \$213.05 million during year 2007.

The trend in the consumption of soft drinks in Ecuador varies by city and region, in Esmeraldas, Quevedo, Cuenca, Riobamba and Ibarra, the highest percentage of consumers prefer Coca Cola, while in Machala where Ajecuator has a plant, KR has positioned itself as the market leader. The trend in Quito is consuming traditional products, and that is why black soft drinks have half of the market.

REFRESHING AND NATURAL JUICES

In a market filled with soft drinks, energy drinks and many brands of bottled water, the segment of juices and refreshments could not remain behind in the strong competition for attracting the Ecuadorian consumers.

The trend of consumption of the Ecuadorians aims towards the natural and light drinks, that not only quench their thirst, but also meet certain food and nutrition characteristics.

According to the study conducted by Pulse Ecuador, the market of natural juices expects to catch the average consumption of bottled water that is 12.6 liters per year per person, who spends between \$ 9 and \$ 12 monthly in the purchase of non soft drinks.

Ecuajugos: property of Nestlé, is the principal company of juices in Ecuador, invoiced \$75.87 million in 2007, its leading product is Natura, and the flavors of preference are peach, mango, blackberry and apple.

Quicornac: present on the Ecuadorian market from year 2000, is the second company inside this category, its sales have doubled from year 2004 up to reaching \$27.22 millions in 2007, represents the brand of juices Sunny and expects to continue growing thanks to its new product Sunny Light.

Industrias Lácteas Toni: manufacturer of Tampico juices in flavors such as Citrus Punch, lemonade and blackberry that had great reception in the market. At first, sales of around 800 thousand monthly units were expected but they are now selling nearly 2 million units, which is an increase between 10% and 12% in the manufacture of hydrating and low-calorie beverages.

Sumesa: A Company once dedicated to the production of pasta, noodle and other products, in 2004, they acquired a new \$2 million processing plant. The company expected to sell 7,000 packs of lemonades but more than 21,000 were sold, reflecting both the degree of satisfaction of consumers towards natural drinks and that liquids are a market that still needs to be exploited in Ecuador.

REHYDRATING AND ENERGY DRINKS

On the Ecuadorian market a considerable increase can observe every year in the offer of rehydrating and energy drinks that, according to their producers were created to increase physical resistance, provide faster reactions, major concentration, provide an effect of well-being, stimulate metabolism and eliminate harmful substances to the organism. [7]

People who practice sports consume these drinks in order to increase their performance, improve the recovery, maintain the health during the intense periods of exercise and reduce the corporal fat, but there is not a scientific investigation about these benefits, so it is not possible to assure them.

In the country are commercialized several energy drinks brands, Red Bull, Cult, Jordan, Bang, Red Devil and Dynamita are some of the most known names. It is necessary to differ between rehydrating and hydrating beverages. Rehydrating drinks as Gatorade, Sporade, Powerade, Power Yus and Tesalia Sport, are products that contain glucose and electrolytes, that is to say sodium and potassium, which they are elements that the body loses during the physical activity or when it is submitted to intense heat. [8]

The Tesalia Springs Company is a major producer in this market with sales reaching sales \$ 42.93 million in 2007, it has introduced to the market prepared and hydrating juices under the brands of Tesalia ICE and Sport, and thanks to its growth created "Aguas de la Sierra" (Serrasa) which is in charge to commercialize all products.

BOTTLED WATER

The marketing of water is a profitable business and groups an approximate number of hundred brands in the country; 66 % of the consumption is on the Coast, the production in the littoral is distributed principally in the winter (February - April) since most of tourists go to this region. [9]

The annual consumption of bottled water with small or individual presentations is 12, 6 liters per person, and the consumption rises annually up to 30 liters per person when water is packed in large bottles of 20 liters, which are distributed specially to companies, business and homes with a medium type of income. [10]

The existing rivalry in the industry of not alcoholic drinks represents an opportunity for this business, although this is a consolidated industry where the number of competitors is very limited, due to the big investments that are needed to enter to this type of industry.

Recent studies show that brands that are positioned for more than five years can sell monthly near two million bottles. Both leaders of the sector are National Brewery and Ecuador Bottling Company.

SEAFOOD AND CONSERVES

The Ecuadorian fishing sector represents the third item of income for the economy of the country; during 2007 the sales of this sector reached \$1.18 billion. Elaborated sea products represent 27.3 % of the total manufacturing sales. [11]

The main fishing products produce and packaged in Ecuador are tuna and shrimp. Of almost 4 millions of metric tons of tuna that are fished in the world, 2.5 millions are extracted in the Pacific, Ecuadorian ships account for 23%, and the country cleans and package 44% in its plants, making Ecuador the most important country in tuna fishing and processing. [12] Tuna and shrimp that are exported principally to the markets of the United States and Europe, report incomes of \$ 891 million in 2007.

In economic terms, for the last two decades, shrimp exports represent an important item in the exports of the Ecuador, in spite of the fact that the production of America represents less than 30% of the world production. Ecuadorian product is recognized on international markets by its quality and freshness. The Ecuadorian production of shrimp nowadays exceeds 115.000 MT per year. The industry is expected to reach the pre-1998 level reflecting its recovering from the white spot disease that devastated the sector (1999-2003). [13]

100% of the shrimp processing plants comply with the national and international quality standards including HACCP and the requirements of the buyers. Therefore, Ecuadorian shrimp is competitive on the international markets. Nevertheless, the principal threat for the sector consists of not having signed the Free Trade Agreement with The United States, since it might lose the current market and the possibility of exporting new products as those of added value. In addition it is needed to strengthen key aspects: the defense of national production with juridical safety, tributary incentives, reduction of the cost of inputs and credit lines.

Negocios Industriales Real (NIRSA): Begun in 1957, it has been consolidated as one of the principal producers and packagers of tuna. The company also has diversified its production with: juices, rice, conserves of fruits, shrimp with value added like crispy coconut and skewers, and conserves of meat with vegetables. For its shrimp processing plant NIRSA buys all the inputs from the United States to assure the entry of its products with value added to this country. The company seeks increase its sales and introduce its product "beef and onion stew"

to New York where the market of Ecuadorian emigrants is large.

FAT AND OIL

Since 1952, Ecuador produces palm oil for local consumption and exportation, although this production is too risky because it requires a high investment. According to the National Association of Palm Growers (ANCUPA) During 2008 the production of palm oil reached 2,075 MT producing 415 MT of crude oil, and 48% of this oil is designated to local consumption.

Nationwide, there are 35 extractors of oil; most transform it into vegetable oil and lard, while at least four of these companies dedicate to the exportation of crude palm oil for the production of biofuel and other uses. The extractors take advantage of the seed of the fruit in order to obtain a component for the elaboration of lard, margarines and vegetable oils.

The investments that require this sector are very high besides the high risks and price of raw materials that are involved in this industry. Based on data from ANCUPA, the local consumption of oil has decreased 2% since 2006 and the price of the hundredweight depends on the region where it is sold.

The extractor of palm "Agroindustrial Quininde (Aquisa)" was found in 1983, takes charge delivering raw materials to four industries that operate in the country: La Fabril, Danec, Ales and Epacem.

Unilever: In 1996, Unilever bought a local ice cream company and entered the Ecuadorian market. Since then, they have introduced a number of new products in Ecuador, such as soap and other oil base cleaning products. Nowadays this firm is the world biggest ice cream manufacturer, margarine, tea, one of the three top producers of dry powder milk, soaps, detergents, palm, almond and olive oil. Unilever sales in Ecuador reached \$147.26 millions during 2007.

La Fabril: found in 1935, made of 2 units of production: 60% dedicated to products of mass consumption with brands like La Favorita, Clar, Criollo; and the 40% left, dedicated to the industrial division that reaches 250 varieties that supply the producers of ice cream, chocolates and others with oils and special fat; has achieved a continuous growth after the dollarization, during 2007 sold more than \$260 millions, besides the company has invested \$ 20 millions in a new refinery that will let it duplicate its capacity of production and sales.

Industrias Ales: with 63 years in the market, is one of the main companies in the line of oils, lards and soaps not only national, but also in Venezuela, Mexico and Europe: since year 2000 has a strategic alliance with Procter & Gamble that allowed the company to give all its products to its clients of different economics strata, achieving \$153 million on sales during 2007.

Danec: has 32 years in Ecuador, its divisions are: industrial products (gives raw materials to many industries), institutional (bakeries, hotels and restaurants); and the mass consumption with brands like El Cocinero, Palma de Oro and Mazorca de Oro; The company seeks to satisfy the new trends of the consumption therefore also produces oils of several mixtures combining soy bean, corn and palm; additionally elaborates products with low levels of calories as the Sioma oil with high nutritional value. Its sales grew 44% during 2007 reaching \$161 millions.

INDUSTRY OF CEREALS AND BAKERY

This industry represents a strong growth on the market of natural products and granola, The principal export destinies of the Ecuadorian cereals and bakery products are Colombia (49,96%), Brasil (20,74 %) and Venezuela (8,73 %) The principal companies of the sector are: Surindu, Tiosa, Molinera Manta, Molinos Champion, Molinos del Ecuador and Molinos Superior.

The sector of cereals has emphasis in two markets, the first one the industry of cereals of consumption like processed rice, which has demonstrated big advances as for brand and quality. Secondly the cereals for the breakfast where multinational companies, like Nestlé and Kellogs lead the market.

There are two trends in the consumption of bread consumers are expecting a more sophisticated food with more whole and multigrains. The importance of higher nutrition and fiber is reflected in the increased consumption of whole grain breads. The bakery industry has diversified its products launching new series with cereals and flavors; nevertheless the product that generates major earnings is cookies.

Nourishing products Supan Tiosa: with 59 years in the market, is the biggest bakery industry in Ecuador, elaborates 50 products of the brands: Supan, Di Milano, Braun and Grile, supplier of the American chain McDonald's in the country.

Grupo Moderna: since 1954 elaborates fresh and packed bread, its production is orientated in 70% to wholegrain bread and 30% to white bread following the world trends of consumption; besides, it offers cakes and creams for other segments of market.

Schullo: leader in the elaboration of natural products since 1962, manufacturer of cereals, granola, honey of bee, peanut butter and fiber cookies. Showed a supported growth from 2003 to 2007 of 80 % thanks to the trends of the consumers and expects to export its products to Europe.

DAIRY PRODUCTS

Traditionally, milk production is concentrated in the Highlands region. The use and destination of milk production in the country has had a consistent behavior with approximately 25% of the gross production going to consumption for calves (self-consumption) with crude milk for

human and industrial consumption, represents 75% of the gross production. Fluid milk is destined in 25 % for industrial elaboration (19% pasteurized milk and 6% for lacteal elaborates), 75% among consumption and utilization of crude milk (39% in human direct consumption and 35% for domestic industries of fresh cheeses), and approximately a 1% is commercialized by Colombia in the border.

Ecuador produces approximately 4 million liters of milk dairy with the annual consumption of 100 liters per capita. According to industry estimates, less than 50% of the population consumes dairy products, a condition similar to other countries in South America. The dairy industry in Ecuador nowadays is influenced by the trend of consumption of the UHT milk in case of multicaps polyethylene or long life "Type Sachet ", which do not need a cold chain. ^[14]

There are six big dairy industries in Ecuador, the biggest one is Nestlé DPA with a daily production of 300 thousand liters of milk. Other important companies are: Andina with a daily production of 110 thousand liters of milk; Nutrileche, a company located in the southern part of Ecuador with a daily production of 140 to 160 thousand liters of milk; Reyleche and Pasteurizadora Quito that produce each one daily 140 to 160 thousand liters of milk, and Tony Yogurt located in Guayaquil also specialized in the elaboration of yogurt and beverages.

The possibility of growth for the Ecuadorian dairy processing industry is directly related, according to different companies, to the expansion on consumption of processed dairy beverages, since there is a big sector of the population that still consumes raw milk; in addition the dairy industry has to give more emphasis in the processing, the quality and the price of the product to have the aptitude to export when surpluses of raw material exist.

Andina: one of the most industrialized companies in Ecuador, with 25 years of experience, has an approximately daily production of 110 thousand liters of milk, which are divided into UHT milk in case and carton; whole milk; low-fat; light; and yogurt. This company belongs to the Ioria Group from Peru with operations, Bolivia, Puerto Rico, Argentina and Colombia. The company has ambitious plans for the Ecuadorian market like expanding the distribution as much to the high income segments as to those of low income; looking for the necessary permissions to process vegetable fat milk, with soy bean proteins, maltodextrina and ways to offer them to accessible prices.

Pasteurizadora Quito: for 46 years has been a part of the dairy industry in the country. Its principal product is VITA PREMIUM milk which has an 80% market share in Quito. The company is certified under the ISO norm, and produces many different production lines (pasteurized milk, yogurt of different flavors, fresh cheese, cream, sweet of milk, UHT milk in sachet and brick, normal milk, low-fat with fiber, without lactose, and milk flavored with chocolate, vanilla, orange and strawberry). The low-fat milk with fiber was a Light product, developed by the company to satisfy the trend of Ecuadorian people interested in consume products with added value that benefit their health.

Rey Leche: It is one of the biggest dairy Ecuadorian brands; Rey Leche is produced by Agrícola Ganadera Reyshaiwal S.A. This firm is not only specialized in milk production, it owns other dairy products like Rey Queso, Rey Crema, Rey Yogurt. [15]

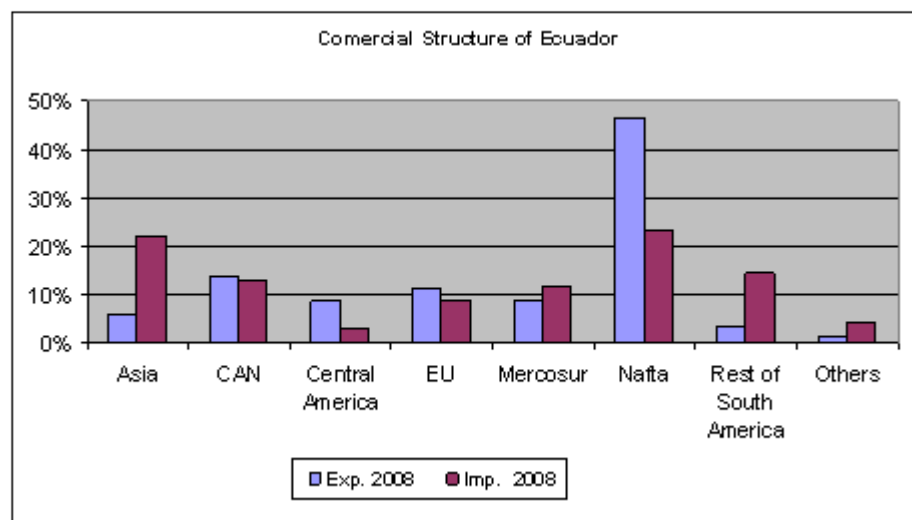
TONI: Toni was founded in 1978 under the Switzerland Toni's technology. This firm specialized in yogurt production not only produces dairy products like milk, cheese and cream, it also produces water, juices, jelly, tea and others. [16]

Alimec (Miraflores): This consortium was founded in 1999. It is formed by three firms; McCormick specialized in species and flavorings, Emlacmi S.A. (Miraflores Dairies) and Zanzi S.A, (Zanzibar Ice-cream). Under the Brand Miraflores it produces and commercializes Yogurt and butter. [17]

Floralp: Since it was founded in 1964, Floralp has been producing dairy products. From its annual sale 59% corresponds to cheese production and the 41% left corresponds to milk, cream and butter production. Floralp distributes its products to self-services 40%, food services (hotels, restaurants cafeterias) 49% and supermarkets 11%. [18]

Section III. Competition

Imports into Ecuador come from NAFTA with 23.45% of the total purchases); Asia with represent 22.08%, CAN 12.87%, MERCOSUR 11.42 %, the rest of South America, thanks to the increase of trade with Venezuela, 14.39%, and the countries of the European Union 8,85 %.

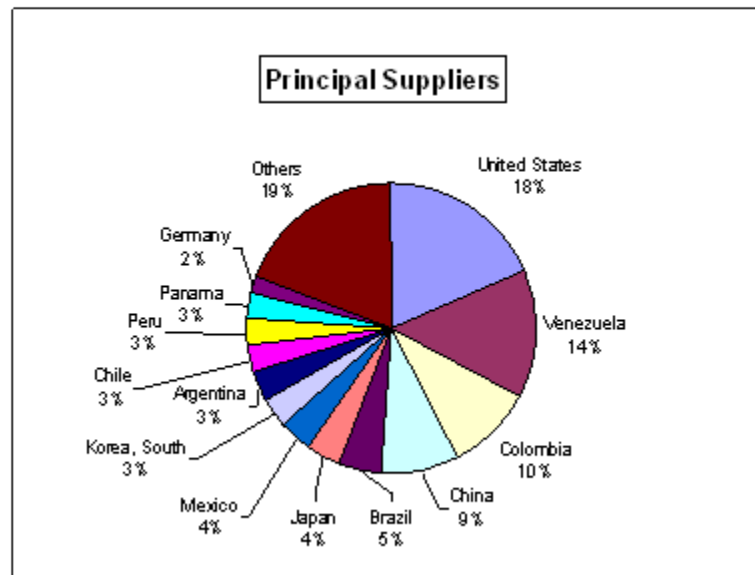


Source: BCE

Ecuador supports commercial agreements under free-trade zones or customs unions with the countries of the CAN, Chile, MERCOSUR, it benefits from unilateral preferences with the United

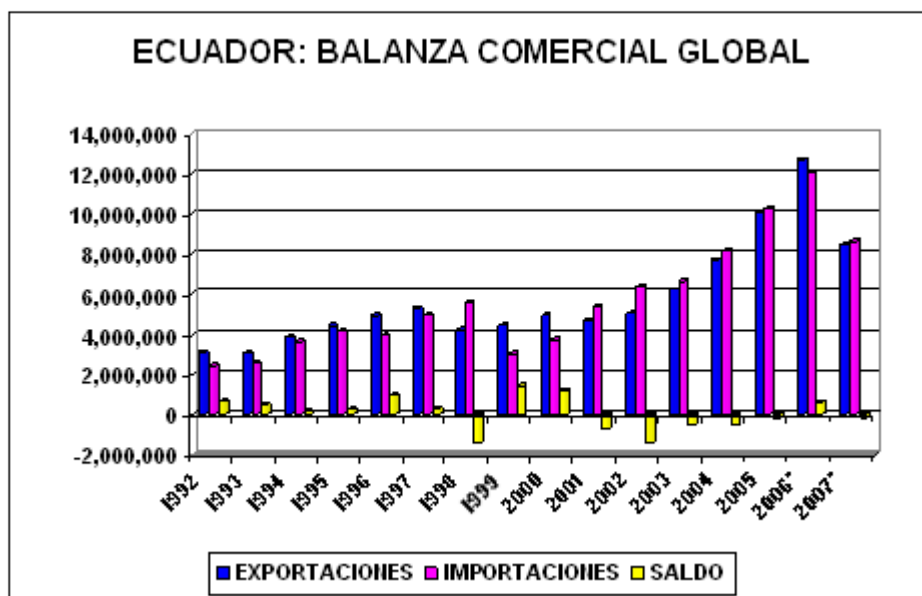
States by the Law of Tariff Andean Preferences and Eradication of the Drug (ATPDEA) and General System of Preferences (SGP), the European Union and Japan. Also it supports an Agreement of Partial Scope in the frame of the ALADI with Mexico and Cuba. [19]

The principal suppliers for country are:



Source: Report of Exterior Trade (MIC)

The balance on trade during 2007 was closer between exports and imports as it can be appreciated in the following chart:



During 2008 the county with the largest expansion on imports to Ecuador was Venezuela moving from a 9% share of imports to 14% becoming the second largest counterpart after the United States.

IMPORTS BY USE OR ECONOMIC DESTINY (Thousand of dollars)

Period	Raw Materials	
	Agricultural	Industrial
2000	237,426	1,329,787
2001	254,890	1,548,687
2002	266,408	1,101,655
2003	288,572	1,745,779
2004	392,073	2,237,143
2005	401,107	2,540,026
2006	433,067	2,993,538
2007	580,098	3,514,610
*2008	624,463	3,166,075

Source: Customs Unique Document

Products of major importance in Ecuador are: wheat, cakes and other residues of the extraction of soy bean oil, followed by other products of fish, by crustaceans and mollusks; and

of pre mix of dog and cat food, conditioned for retail sale.

Basically, the growth in imports reflects the success of dollarization as the average consumer has acquired or perceives a purchasing power that remains stable and does not deteriorate as in the past.

The Ecuadorian agricultural sector is highly protected and uncompetitive compared with the ingredients for food processing from the United States and other countries. Due to market access restriction, however, most of the raw materials used by the food industry are domestic in origin.

The Council of Exterior Trade and Investments (COMEXI), at the suggestion of the Ministry of Industries and Competitiveness, resolved to approve an import restriction that affects 78 tariff codes related to the food and agricultural sector. This measure applies additional tariffs and quotas on imports.

Products from the United States have important advantages in quality standards, registered brands and presentation, but duties generally are higher than the products from Latin America, therefore are less competitive. Products from the CAN (Colombia, Bolivia and Peru) are competitive with regard to domestic production and do not promote trade or market growth like products from the United States

Ecuadorian companies tend to import specialized ingredients of high technology and innovation, such as: flavors, colorings, preserving, emulsifiers and others from the United States and/or Europe, since in Ecuador there does not exist companies dedicated to the elaboration of these products.

A brief review of imports by main product categories is presented below. The market shares that are indicated in this section are based in imports from Ecuador during 2007.

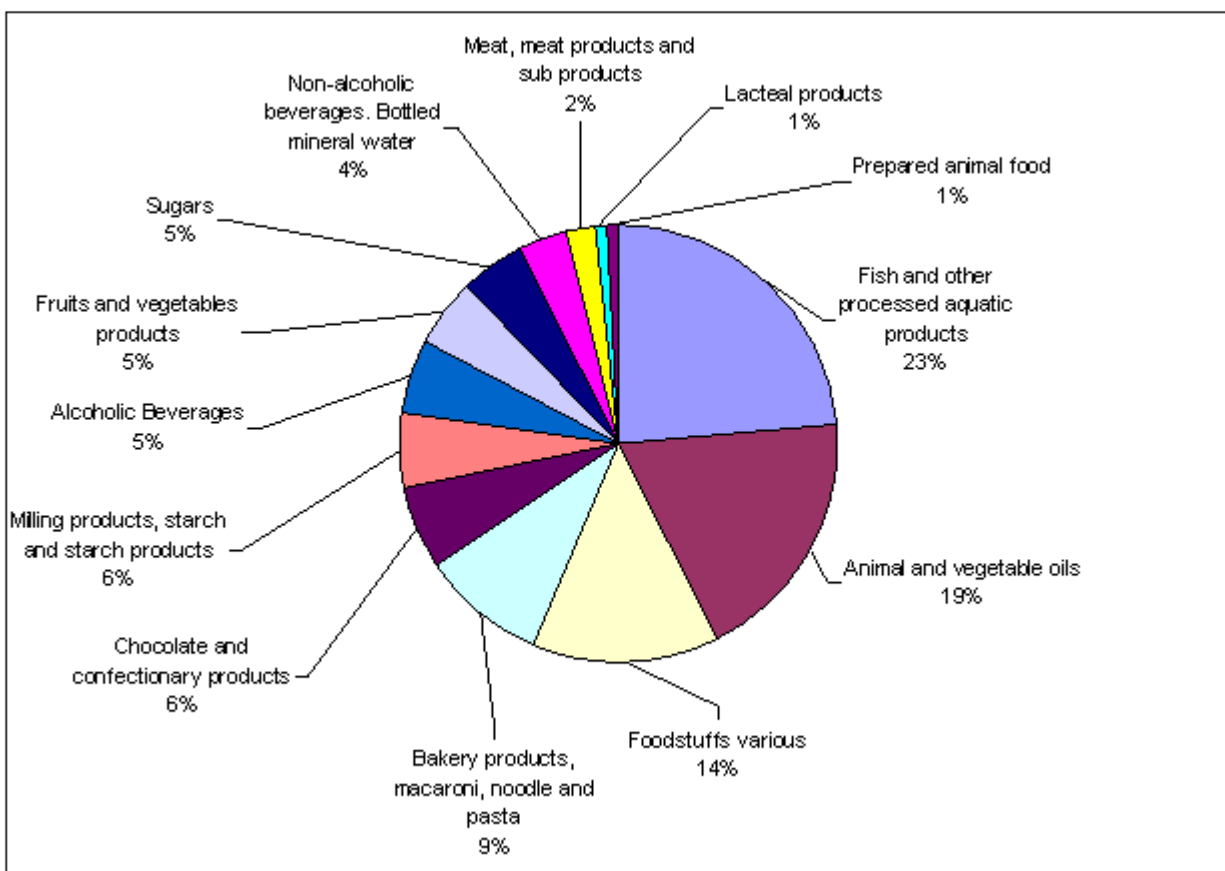
Competitive Situation facing U.S. Suppliers in the Food Processing Sector in 2007

Product Category	Major Import Supply Sources in 2007	Strengths of Key Supply Countries	Advantages and Disadvantages of Local Suppliers
Seafood	Peru 90.81% Chile 3.78% Japan: 3.77%	Chile is the major supplier of sea products in South America	Ecuador is one of the most important tuna producers in Latin America
Non-alcoholic beverages	Colombia: 78.68% United States: 6.34% Mexico: 5.6%	Colombian products have more openness because their prices are accessible	The industry of drinks and refreshments has diversified for the revenue of International companies
Beer	Colombia: 49.28% Mexico: 21.14%	Principal beer producers in Ecuador are Colombian	The principal trend of consumers is for national Brands

	Brazil: 12.02% United States: 9.56%	and Brazilian	
Oil seed products	Argentina: 63.86% Peru: 28.46% Bolivia: 7.24%	Benefited by great International prices, by the double effect of high demand and low supply	National production is diverse and of high quality
Sugars	Colombia: 66.90% Peru: 6.61% United States: 5.75%	The Colombian industry of processed sugar has quality certifications and does not pay tariffs. The Brazilian sugar industry is one of the strongest in the world.	National production of sugar is threatened by the strong imports of less price of other countries
Dairy products	Chile: 49.12% Colombia: 21.99% United States: 21.45%	USA offers products that do not produce locally	National production is slightly competitive and is protected by the government
Baked goods	Per: 28.66% Colombia: 22.62% Mexico: 11.48% Chile: 10.36%	The prices at which these 3 countries offer their products are very competitive.	Ecuador counts with the presence of big companies dedicated to production
Milling products (flours)	Colombia: 85.16% United States: 13.56% China: 1.28%	The production of these countries is high and they do not pay tariff because they are members of the CAN	The prices of these products are governed by an oligopoly
Meat	Chile: 39.89% United States: 25.57% Brazil: 22.13%	United States has technology, quality and sanitary certifications	Exist many informal companies that offer their products to low prices but without quality
Confectionery	Colombia: 64.82% Per: 8.23% Argentina: 7.65% United States: 4.62%	Production is massive and that is why prices are competitive	National industry is affected by high sugar prices
Prepared fruit and vegetables	Chile: 43.33% United States: 20.71% Colombia: 8.68%	USA products are of excellent quality, while the ones from Chile have competitive prices	The agricultural production of Ecuador is constant during all year, but the levels of technology are very low
Prepared animal food	Chile: 53.44% Peru: 17.44% United States: 11.84%	United States and Chile have specialized industries and offer products that are not produced locally	The industry has diversified its production and nowadays offer competitive prices
Preparations of Food Miscellaneous	Colombia: 32.45% Chile: 28.42% United States: 16.42%	United States produce ingredients that do not exist in the region	National production is scanty and possesses deficiencies
Alcoholic Beverages	Chile: 37.22% Colombia: 21.91% Mexico: 9.40%	United Kingdom and Chile are known for the quality of their products	Ecuadorian industry concentrates in products of low prices and quality too

Source: Statistics Central Bank of Ecuador, 2006

Section IV. Best Product Prospects



Source: Central Bank of Ecuador, 2006

It is possible to observe that in the category of import of nourishing ingredients, the strongest item during 2008 corresponds to fish and other processed aquatic products \$226,843,000dollars, followed by animal and vegetable oils \$179,354,000 dollars and preparations of foodstuffs various \$134,241,000 dollars, which demonstrates that the Ecuadorian industry still has a low level of technology and needs imported products and ingredients from the relatively higher technology suppliers in North America and Europe.

USE OF PRODUCTS/INDUSTRY COUNTS OF CENTRAL BANK OF ECUADOR

<u>Imports 2002</u>	<u>Imports 2007</u>	<u>CPCN</u>	<u>Products</u>	<u>Total Offer</u>	<u>Total Offer</u>	<u>Variation</u>
<u>(CIF)</u>	<u>(CIF)</u>			<u>(pc) 2002</u>	<u>(pc) 2007</u>	
157,924	275,519	27.0100	Chemical Basic products	227,741	370,796	62.81%
194,138	283,677	2.0100	Cereals	621,176	840,864	35.37%
905,374	1,856,881	27.0900	Other chemical Products	1,757,631	3,136,159	78.43%
93,577	256,673	15.0100	Crude oil, refined and fat	535,097	969,732	81.23%
103,995	203,011	20.0100	Other nourishing products	604,959	1,025,547	69.52%
88,939	120,509	4.0100	Other agricultural products	1,158,814	1,583,506	36.65%

30,871	58,524	21.0100	Alcoholic beverages	415,481	599,423	44.27%
32,135	43,632	19.0900	Chocolate and confectionery products	171,623	259,071	50.95%
19,033	43,632	17.0900	Bakery Products, noodles and pasta	325,581	467,075	43.46%
9,024	28,735	21.0900	Non alcoholic beverages	340,300	427,843	25.73%
15,336	7,194	18.0100	Sugar and sugar cane	235,155	304,594	29.53%
9,347	21,391	12.0100	Meat and meat products	1,086,256	1,474,960	35.78%
26,413	77,587	14.0100	Fish and other aquatic elaborated products	234,415	435,952	85.97%
7,301	18,054	20.0900	Elaborated coffee	156,945	253,605	61.59%
8,268	17,955	17.0100	Milling products	580,730	885,087	52.41%
12,591	19,444	5.0100	Cattle, alive animals and animal products	1,140,694	1,574,392	38.02%
9,165	15,578	6.0100	Forestry products	388,954	585,574	50.55%
8,493	9,529	16.0100	Elaborated lacteal products	401,936	540,603	34.50%
531	3,818	14.0900	Conserves of aquatic species	401,482	722,702	80.01%
1,367	3,330	19.0100	Elaborated cocoa	61,034	100,968	65.43%
438	2,604	8.0100	Alive fish, fresh and refrigerated	476,513	768,057	61.18%
173	403	13.0100	Elaborated shrimp	337,968	736,071	117.79%
23		1.0100	Banana, coffee, cocoa	1,291,857	1,855,574	43.64%
135,563	230,711	33.0100	Other manufactured products	1,049,138	1,710,267	63.02%
		7.0100	Shrimp and larvas of shrimp	292,057	608,218	108.25%
	594,581		Direct buying's	405,229	594,581	46.73%
-477,639	998,220		Adjust CIF/ FOB			
6,153,683			TOTAL	14,698,766	22,831,221	55.33%

Source: National Counts – Central Bank of Ecuador

A. Products Present in the Market Which Have Good Sales Potential

In general, products for the food processing industry with the best potential in the Ecuadorian market for U.S. exporters are those that require of an advance technology of processing and high quality, including: artificial flavors, colorings and chemical products, spices and others. Also less sophisticated products like: wheat, flour of soy bean, yellow corn, mixtures, juices and concentrates for fruit juices, syrup of glucose, some milk derivatives like milk in powder, whey of milk and lactose.

Food ingredients from the United States that have good market potential can be analyzed in the following picture:

Product Category	Size of the market 2006 est.	Imports 2006	Imports growth 2002-06	Duty of Import	Limits for the development of the market	Attractions of the Market for USA suppliers
Preparations of	1,025.547	134,241.77	98.65%	20%	- Strong competition on the	- Incipient industry

food miscellaneous					part of Chile and Colombia	in Ecuador - High quality of products from United States - United States represents the 16% of imports (21,243.13 thousand USD)
Milling products and cereals	1,725.95	53,730.78	173.86%	20% - 30%	-Exist an oligopoly in this industry which imposes the price	-USA and Canada are the principal suppliers of cereals (37% and 40% respectively). National production is insufficient
Chocolate and confectionery products	259,071	57,963.18	70.28%	20% - 30%	- Colombia is one of the most important suppliers, with competitive prices	-United States brands are recognized in Ecuador - Sugar prices in Ecuador are very high
Bakery products, noodles and pasta	467,075	87,840.34	180.35%	30%	- Neighboring countries and members of the CAN, are the most important suppliers	- United States has specialized products that do not exist in the region. -Quality products are preferred.
Non alcoholic beverages	427,843	34465.69	235.76%	20% - 30%	-Colombia has an important part of the Ecuadorian market	- National production is threatened by new brands and imports of low costs
Meat and meat products	1,474.960	22,121.70	222.55%	20% - 85%	-Ecuadorian production counts with sufficient technology -Restriction to Import meat and meat products from the United States.	- United States has products of high technology and quality -United States represents almost 29.41% of imports (6,506.51 thousand USD)
Dairy products	540,603	9,280.23	32.91%	54%	-Ecuadorian production is protected by the Government. - Neighboring countries are the principal suppliers	-United States has an specialized industry and has products that do not exist locally. - Strong presence of international industries

Source: National Counts – Central Bank of Ecuador

. Products Not Present in Significant Quantities, but Have Good Potential Sales

United States products that do not represent big volumes of sales or are unknown in the market belong principally to seeds or dried fruits that are not cultivated locally, and trends of consumers have overturned to these products; also proteins, vitamins or additives for food with major energetic and healthy content. It is observed that in the sector of fats and oils, they require the import of several raw materials.

Product Category	Size of the market 2006 est.	Imports 2006	Imports growth 2002-06	Duty of Import	Limits for the development of the market	Attractions of the Market for USA suppliers
Basic Chemicals products for the preparation of food	\$370,796	\$390.17	56.63%	0% - 5%	- Information about the national market does not exist.	- The duty of import is minimal since almost national output does not exist.
Crude and refined oil and fat	\$7,378,050	\$179,354.49	358,15%	0% - 20%	- National industry has diversity in the production, and excellent natural resources	- United States represents 3,6% of imports (6,380.31 thousands USD), but still a great part of the demand unsatisfied exists.
Seeds and dry fruits	NA	\$22,148.54	14,82%	0% - 10%	-Chile represents the second supplier of these products after the United States	-Importers prefer almonds and pistachios of the United States because of their quality, instead of those from Chile

Source: National Counts – Central Bank of Ecuador

C. Products Not Present Because They Face Significant Barriers

Few products do not exist in the Ecuadorian market due to significant customs barriers. The main product categories are the grains that are protected by import quotas of import or face unjustified sanitary restrictions imposed by the government in order to protect the local production. A similar product is milk and its derivatives.

Ecuador is net agricultural country and the production of fruits and fresh vegetables can be constant all year round due to the diverse climates that this country has.

Competitiveness is very important with more than 70% of the price to the consumer of a product in the international market corresponds to the DFI's costs (package, packing, freights, assurances, taxes, rates for customs services, etc.), and it is possible to obtain in the external marketing important economies to compete in better terms.

Section V. Post Contact and Further Information

If you have any questions or are seeking additional assistance, please contact the Foreign Agricultural Service in Quito at the following address:

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www.usdaecuador.org

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